

## Information on Washington's Tax Structure



# Business and Occupation Tax

**The information contained in this fact sheet is current as of the date of this publication and provides general information about the business and occupation tax. It does not cover every aspect of the tax. In addition, it does not alter or supersede any administrative regulations or rulings issued by the Department.**

### BUSINESS AND OCCUPATION TAX

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2000, B&O tax collections totaled \$1.8 billion, which represented approximately 16.1 percent of state revenue sources within the state general fund.

In addition to the state B&O tax, many Washington cities also tax businesses on their gross income. There is, however, **no** connection between the state and local B&O taxes. To find out if your city has a B&O tax, call your city business license office.

### STATE B&O TAX

Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax. This includes corporations, partnerships, sole proprietors and nonprofit organizations.

Unlike the retail sales tax, a sale does not have to occur for a business to owe B&O tax. For example, extracting or manufacturing goods for your own use is an activity that generates a B&O tax liability.

Washington, unlike many other states, does not have an income tax. An income tax is based on net business profits AFTER expenses. Washington's B&O tax is calculated on GROSS income from activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, your business may qualify for certain exemptions, deductions or credits.

### REGISTRATION

You must register your business with the Department of Revenue if your gross income is \$12,000 or more per calendar year **or** you collect or pay any other taxes to the Department, including the retail sales tax. If your gross income is over \$12,000 but less than \$28,000, and you owe no other taxes to the Department of Revenue, including retail sales tax, you are eligible to be assigned an active nonreporting business status. If your business is assigned this status, you are considered to be actively doing business in Washington, but you will not receive and are not required to file Combined Excise Tax Returns (CETR). If you meet this criteria and would like to receive the active nonreporting status, please contact your local Revenue office or the Telephone Information Center at (800) 647-7706. Other taxes paid to the Department of Revenue include, but are not limited to:



- ◆ Retail Sales and/or Use Tax
- ◆ Tobacco Tax
- ◆ Refuse Collection Tax
- ◆ Litter Tax
- ◆ Syrup Tax

Even if you are not required to register with the Department of Revenue, you may have to register with other state agencies. For instance, businesses with employees may need to register with the Employment Security Department and the Department of Labor and Industries.

To register your business, you must file a Master Application. You can obtain and file a Master Application with the Department of Revenue, Labor and Industries, Licensing, the Employment Security Department or the Secretary of State.

## PAYMENT OF TAXES

The state B&O tax is paid on the Department of Revenue's CETR. Businesses file tax returns monthly, quarterly or annually. After you register your business, the Department of Revenue will determine your reporting frequency based on your estimated annual tax liability and your type of business. A return is then mailed for your respective reporting frequency.

## DESCRIPTIONS OF MAJOR B&O TAX CLASSIFICATIONS

Following are brief descriptions of the major B&O tax classifications:

**Retailing** — Sales of goods and certain services to consumers are retail sales. There are numerous services defined as retail sales. Please refer to our *Information on Washington's Tax Structure - Retail Sales Tax* fact sheet.

Businesses making retail sales are subject to the B&O tax under the Retailing classification, even when the sales are not subject to retail sales tax. For example, food products are exempt from retail sales tax, but the income from food sales is taxable under the Retailing B&O tax classification.

**Wholesaling** — Wholesalers sell goods and services to persons who will resell them to others in the regular course of business. The B&O tax is calculated on the wholesale selling price. If you are a wholesaler, you must keep a resale certificate on file from each buyer to document that the transaction was indeed, a wholesale sale. Retail sales tax is not collected on wholesale transactions. Blanket resale certificates for frequent wholesale customers must be renewed every four years. Resale certificates may be downloaded from our web site or purchased at most office stationery stores. For more information on resale certificates, please refer to

our *Information on Washington's Tax Structure - Resale Certificates* fact sheet. **Do not send completed resale certificates to the Department of Revenue, they must be given to and retained by the vendor.**

**Manufacturing** — The Manufacturing B&O tax classification is used by firms that manufacture items in Washington. The manufacturing tax applies on items that are manufactured in Washington regardless of where the product is sold. Products manufactured in Washington but sold and delivered out of state are still subject to the Manufacturing B&O tax. Manufactured products which are used by the manufacturer and are not sold (or are used prior to sale), are also subject to tax under this classification.

The Manufacturing B&O tax is based on the value of the products, which is usually determined by the selling price. In cases where there is no sale, the value is the selling price of similar products. If the manufacturer sells and delivers the manufactured product within the state, the income is also reported under either the Wholesaling or Retailing B&O tax classifications. A Multiple Activities Tax Credit (MATC) is available to offset the double tax payment when reporting under two B&O tax classifications.

**Service and Other Activities** — This classification is for businesses that provide personal and professional services or activities not otherwise classified. Any business which is not described under a particular classification of the B&O tax must report under this "catch-all" category. Types of businesses and services that fall under this category include, but are not limited to:

- ◆ Consulting services
- ◆ Management services
- ◆ Doctors
- ◆ Lawyers
- ◆ Investment advising
- ◆ Beauticians
- ◆ Teachers/Tutors
- ◆ Computer programming

## B&O TAX RATES

B&O tax rates and classifications vary according to the type of business activity. Businesses may report under one or more tax classifications with varying tax rates. For instance, a floor covering store may sell carpet directly to a homeowner or speculative builder for his or her own use (taxed under Retailing) and may also sell carpet to a custom contractor, who will then resell it to the home buyer (taxed under Wholesaling).



The rates for the major B&O tax classifications as of October 1, 2001 are shown below. The B&O tax rates are also printed on the CETR.

<b>MAJOR B&amp;O TAX CLASSIFICATIONS</b> <b>Effective October 1, 2001</b>	
<b>B&amp;O Tax Classification</b>	<b>Tax Rate</b>
Retailing	.00471
Wholesaling	.00484
Manufacturing	.00484
Service and Other Activities	.015

In addition to the major B&O tax classifications, there are several specialized tax classifications. Some of these have the same tax rate as the general classifications, but are reported on different lines on the return; others have their own unique tax rates. These specialized B&O tax classifications are shown in the chart to the right.

Taxpayers are responsible for determining which B&O tax classification(s) they must report their income under. If you are unsure which classification(s) your business should use, please contact the Telephone Information Center.

## **SPECIALIZED B&O TAX CLASSIFICATIONS** **Effective October 1, 2001**

<b>Classification</b>	<b>Tax Rate</b>
Extracting, Extracting for Hire	.00484
Slaughter, Break Processing, Perishable Meat-Wholesale, Manufacturing Wheat into Flour, Raw Seafood, Soybean & Canola Processing	.00138
Travel Agent Commission; International Charter Freight Brokers and Stevedoring	.00275
Insurance Agents/Insurance Brokers Commission	.00484
Manufacturing Fresh Fruits and Vegetables; Splitting or Processing Dried Peas; Warehousing Prescription Drugs; Manufacturing Dairy Products	.00138
Processing for Hire/Printing and Publishing	.00484
Royalties; Child Care	.00484
Warehousing, Radio & TV Broadcasting, Public Road Construction/Government Contracting	.00484
Public or Nonprofit Hospitals	.015
Cleanup of Radioactive Waste for US Government; Environmental Remedial Action	.00471
Retailing of Interstate Transportation Equipment	.00484

## OTHER TAXES TO CONSIDER

Some activities are not taxable under the B&O tax, but are covered under a similar type of tax based upon a business' gross income. For example, public and privately-owned utilities or trucking companies which transport persons or property for hire are subject to the public utility tax instead of the B&O tax. Please refer to the *Business Tax Guide* for more information on these types of taxes.

## EXEMPTIONS, DEDUCTIONS AND CREDITS

Although Washington's B&O tax applies to almost all business income, various exemptions, deductions and credits are available.

## EXEMPTIONS

The following are examples of a few activities which are not subject to the B&O tax and do not need to be reported on your CETR. This list is not all inclusive.

### Farming:

- ◆ Growing, raising or producing agricultural products, including custom feed operations;
- ◆ The raising of animals, including fish, for sale at wholesale, and the raising of animals, except fish, for others;
- ◆ Raising and selling plantation Christmas trees at wholesale;
- ◆ Sponsoring agricultural fairs for income;
- ◆ Producing hatching eggs and poultry used in commercial production of poultry products;
- ◆ Processing hops into extract, pellets, or powder sold to out-of-state buyer; and
- ◆ Farmers cubing their own hay or alfalfa.

### Nonprofit and social service organizations:

- ◆ Sales for fund-raising activities of certain nonprofit organizations. This does not include the regular operation of a business enterprise such as a bookstore, thrift shop or restaurant (refer to our *Information on Washington's Tax Structure - Nonprofit* fact sheet);
- ◆ Income from nonprofit hospices which are licensed under Chapter 70.127 RCW;
- ◆ All functions of the Red Cross;



- ◆ Child care provided by churches;
- ◆ Nonprofit child care resource and referral income;
- ◆ Rehabilitation services provided to the handicapped by sheltered workshops;
- ◆ Services provided by fraternal benefit societies;
- ◆ Activities of nonprofit kidney dialysis facilities, nursing homes, and homes for unwed mothers;

- ◆ Receipt of certain government grants and tuition charges;
- ◆ Issuing bonds to provide student loans or guaranteeing federal student loans;
- ◆ Auctions conducted by public benefit organizations;
- ◆ Credit/debit services provided by nonprofit organizations; and
- ◆ Blood, bone and tissue bank income not subject to federal income tax.

### Government:

- ◆ County, city, school and fire district income, except utility or enterprise operations which are in competition with other businesses and over 50 percent funded by user fees;
- ◆ State and federal grants received by political subdivisions when no significant services are performed in return;
- ◆ Labor and services in respect to preparation of sand and gravel taken from pits that are owned or leased by a city or county and used by the city or county for purposes of road construction and repair;
- ◆ Printing done by cities, counties and school districts for their own purposes; and
- ◆ The State Housing Finance Commission.

### Financial:

- ◆ International banking facilities; and
- ◆ State and federally chartered credit unions.

### Miscellaneous exemptions:

- ◆ Activities performed by employees, including insurance salespeople, as defined by the Internal Revenue Code (see Section 3121 (d) (3) (B) of the Internal Revenue Code of 1986 for a definition of an employee);
- ◆ Accommodation sales at cost between sellers of the same type of tangible personal property;
- ◆ Adult family homes licensed by the Department of Social and Health Services;



- ◆ Out-of-state firms that sell consumer products in Washington exclusively through direct sellers' representatives and not via an established retail outlet;
- ◆ Ride-sharing transportation services provided for commuters and elderly or handicapped persons;
- ◆ Sale or rental of real estate other than lodging;
- ◆ Retail or wholesale sales of precious metal bullion or monetized bullion (gold, silver, etc.). Commission income from selling precious metal for others is **taxable** under the Service and Other classification;
- ◆ Small timber harvesters whose gross income is less than \$100,000 per year; and
- ◆ Amounts received by motor vehicle dealers for wholesale sales of either: 1) vehicles to other dealers for no profit; or 2) used vehicles at auction to other dealers.

## DEDUCTIONS

Unlike exemptions, deductions must first be reported on your CETR as part of your gross income, then taken as a deduction. Please refer to the *Business Tax Guide* for the appropriate steps in reporting your deductions.

There are numerous B&O tax deductions. The most common deductions are listed below.

- ◆ **Advancements/Reimbursements, Returns and Allowances**  
Amounts received as advancement or reimbursement when the customer or client alone is liable to pay for the procurement of goods and services. The taxpayer making the payment cannot have primary or secondary liability, other than as agent, to pay for the goods and services. (WAC 458-20-111, -108)
- ◆ **Bad Debts**  
Bad debts are amounts previously reported and determined to be uncollectible. The debt must also be written off for IRS purposes. (WAC 458-20-196)
- ◆ **Casual Sales/Accommodation Sales**  
Casual sales consist of amounts received for sales of tangible personal property by persons not usually selling such items. **Note:** *The seller must collect and remit the sales tax.* Accommodation sales are

amounts received by a business for selling goods at cost to a like business to fill an existing order. (WAC 458-20-106, -208)

- ◆ **Freight**  
Freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments. (WAC 458-20-136)



- ◆ **Gambling/Prizes/Cash Pay-Outs**  
These are amounts paid out or the value of merchandise given as prizes in games of chance. (WAC 458-20-131)
- ◆ **Interstate and Foreign Sales**  
Goods sold and delivered to customers outside of Washington or transportation of persons or goods across state or international boundaries. Documentation is necessary. **Note:** Manufacturers and extractors who sell outside of Washington must report under the manufacturing or extracting classifications. This deduction is not valid for these classifications. Service providers must render the service outside state boundaries. (WAC 458-20-193, -193C, -194)
- ◆ **No Local Activity**  
Sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain or facilitate a market for its products or services. This also includes sales of consumer products made to or through a direct seller's representative. (WAC 458-20-193, -246)

Businesses are not allowed to deduct the cost of doing business. For most businesses, this generally includes:

- ◆ gasoline or other fuel purchases;
- ◆ wages and salaries;
- ◆ product costs; and
- ◆ delivery costs.

## CREDITS

Credits are amounts that have been paid to the Department of Revenue which are either not due or are granted by the Legislature for specific purposes. Credits are subtracted from the B&O tax due on your CETR.

Detailed instructions for reporting credits are in the *Business Tax Guide*. The major B&O tax credits are:

◆ **Multiple Activities Tax Credit (MATC):**

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification, but takes the MATC so B&O tax is not paid twice on the same amount. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. A credit is allowed so that B&O tax is paid only once. This also applies to a business that has paid a gross receipts tax to another state. Completion of the *Multiple Activities Tax Credit, Schedule C* is necessary each time credit is claimed. (WAC 458-20-19301)

◆ **High Technology Business and Occupation Tax Credit:**

An annual credit of up to \$2 million is allowed for businesses that perform research and development in the fields of advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology. The business' spending on research and development during the year the credit is claimed must exceed .92 percent (0.0092) of the business' taxable amount during that same year. The credit cannot exceed the amount of the B&O tax due for that calendar year.



For more information on this credit, please refer to the *Information on Washington's Tax Structure – High Technology Business and Occupation Tax Credit* fact sheet.

◆ **Ride Share B&O/Public Utility Tax Credit:**

Credits may be taken against the B&O tax and/or public utility tax by employers located anywhere in the state for amounts paid to or on behalf of employees for ridesharing, using public transportation or other means of non-motorized commuting. The maximum credit a company may receive is \$100,000 per calendar year. When the total amount of credit statewide reaches \$2.25 million during the calendar

year, the credit becomes unavailable until the following calendar year. A Ride Share Credit Reporting Form must accompany each tax return on which the credit is used. The credit may be used only once a quarter and not less than once a year. (WAC 458-20-261)

◆ **International Services Credit:**

Businesses engaging in certain international services and creating and filling new employment positions in Community Empowerment Zones or contiguously designated census tracts meeting certain unemployment and poverty criteria may take the international services B&O tax credit. The business must also be located in the designated area. The credit amount is \$3,000 per new employment position per year for up to five years. International services must be provided to persons domiciled outside the United States or be for use primarily outside this country. International services include the following: computer, data processing, information, legal, accounting and tax preparation, engineering, architectural, business consulting, business management, public relations and advertising, surveying, geological consulting, real estate appraisal, or financial services.

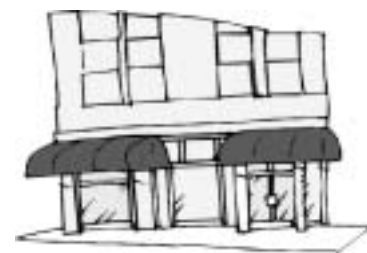
◆ **Small Business B&O Tax Credit:**

Available for businesses whose net B&O tax liability is below:

- ◆ \$71 for Monthly taxpayers
- ◆ \$211 for Quarterly taxpayers
- ◆ \$841 for Annual taxpayers

The small business B&O tax credit is determined after other B&O tax credits allowable under Chapter 82.04 RCW (MATC, High Technology B&O Tax Credit and ride-sharing credits) have been applied. It may not exceed the amount of B&O tax due, nor may any unused portions be carried into the next reporting period.

The *Small Business B&O Tax Credit Table* is sent with each CETR.



◆ **Distressed Area B&O Tax Credit:**

The Distressed Area B&O Tax Credit Program for new employees provides a \$2,000 credit for each new qualified employment position with annual wages and benefits of \$40,000 or less; or a credit of \$4,000 for each new employment position with wages and benefits over \$40,000 annually, for applications approved July 1, 1997 and after. The credit is taken against the B&O tax for each new employment position filled and maintained by qualified businesses located in eligible areas. Please refer to the *Information on Washington's Tax Structure – Distressed Area Business and Occupation Tax Credit for New Employees* fact sheet for more detailed information.

◆ **Credits for Overpayment of Taxes:**

Occasionally, the Department of Revenue may determine that you have overpaid your taxes due to an error of some type. When this happens, you will be issued a Credit Memorandum for the overpaid amount. You may use this credit for any tax period after it is issued for up to five years. When the credit is used, a copy of the memorandum must be attached to the return.

## OTHER HELPFUL HINTS

- ◆ The B&O tax is a cost of doing business and not billed to your customer as a separately stated item (as is the sales tax).
- ◆ Taxes must be paid on all accrued sales made during the reporting period, even if you have not received payment, unless you keep your books strictly on a cash basis.
- ◆ Please contact the Department of Revenue at any of the numbers listed on the back cover or through our web site if any of your business information has changed. This includes your address, phone number, type of business (for instance, when a partnership incorporates), business activity, or if you have closed your business.
- ◆ If you realize you've made a mistake on your CETR, you should complete an Amended Return to correct the mistake. Please contact your local Department of Revenue office or call the Telephone Information

Center for assistance. Refer to the map provided on the last page of this publication for addresses and telephone numbers.

- ◆ If you don't receive your CETR in the mail by the 10th of the month in which the return is due, please contact one of the numbers listed on the back cover.

## FOR MORE INFORMATION

You can access all of the rules, laws, publications and forms discussed in this publication through our web site at <http://dor.wa.gov>. The web site also provides a wide range of valuable tax information and services.



For answers to specific tax questions, please call the Telephone Information Center at 1-800-647-7706 or write to:

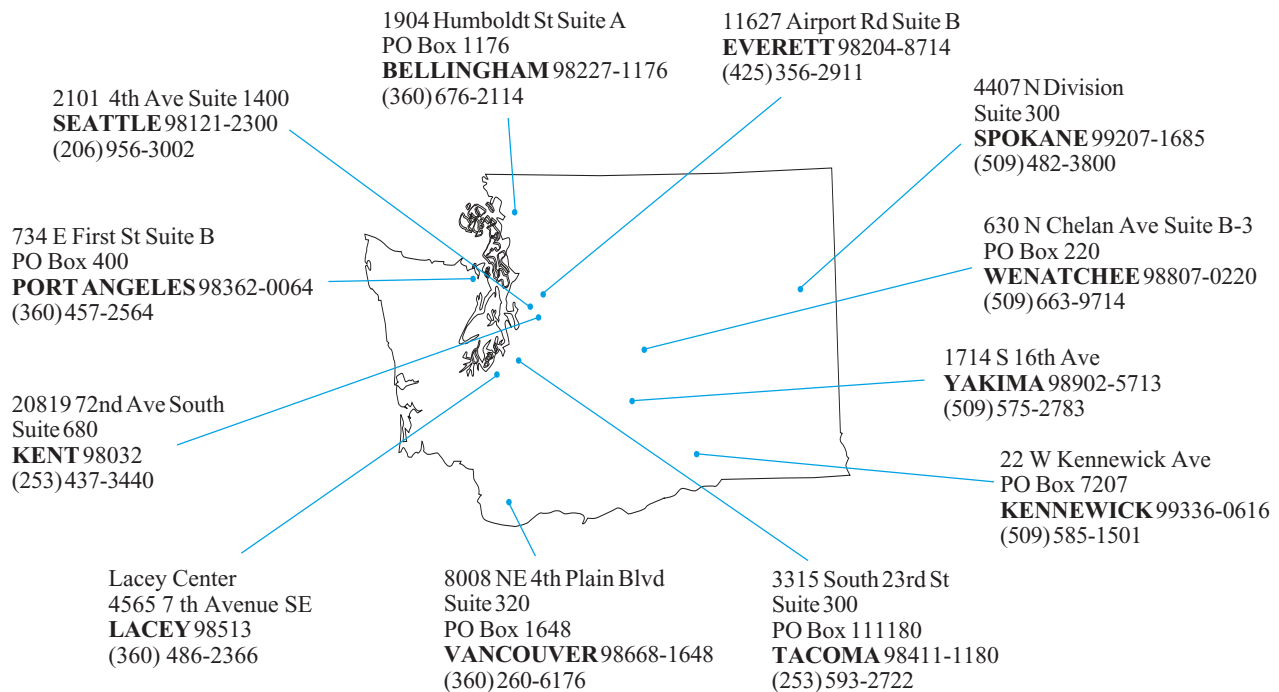
Taxpayer Information and Education  
Washington State Department of Revenue  
Post Office Box 47478  
Olympia, Washington 98504-7478  
Fax: (360) 486-2159

# Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

## FIELD OFFICE LOCATIONS



# 1-800-647-7706

To inquire about the availability of this document in an alternate format  
for the visually impaired, please call (360) 486-2342.

Teletype (TTY) users please call 1-800-451-7985.



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